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NOTES

THE HARVARD BUREAU OF BUSINESS RESEARCH¹

The recent publications of the Harvard Bureau of Business Research are very significant in that they reveal the procedure of the university in the very difficult task of assembling reliable business data for the purpose of classification and study, and give the results which have been obtained by this university in the field of business research.

The Harvard Bureau of Business Research was founded in 1911 for the purpose of assembling and classifying business data and establishing on the basis of classified information standards and principles of business action. The individuals instrumental in the founding and directing of the Bureau were aware from the start of the difficulties involved in the inauguration of any research work in business. The complexity of business, with its many interacting factors, and the extensive character of business operations influenced the directors of the Bureau to find, if possible, a division of the business field which, though comparatively simple, would nevertheless be fundamentally representative of a distinct class of business activities for which few reliable data existed.

For the introductory investigation the entire field of production was eliminated on the ground that the production of goods was more efficiently organized than was the distribution. Within the field of distribution, the merchandising of shoes was selected for the reasons, first, that the production of shoes was fairly standardized and stable, wherefore the distribution was little affected by fluctuations in production; second, that the retail merchandising of shoes was relatively simple when compared with the retailing of drugs, groceries, etc.; third, that the merchandising of shoes was fairly representative of the distribution of other staple goods. The retailing division of the distributive process was to be studied first, and later the wholesale and manufacturing divisions were to be taken up.

The Harvard Bureau should be commended for having the courage of its convictions in confining its attention to such a limited field as that chosen. To some it may not have appeared very heroic for a leading university to make its entry into the field of business research by under-

¹A review based on recent publications by the Bureau.

taking such a limited study as that decided upon. However, to those familiar with the difficulties that would be encountered, it was apparent that the Bureau had taken the right position. Success in the first investigation will show that business data can be assembled and classified so as to reveal the presence or absence of any standards or principles, and that the university is able to organize and conduct such a study. If this is attained, the future will care for itself. Business men will undoubtedly be encouraged by the results to provide funds for the university to use in research and the government itself may be induced to open a Bureau of Business Research corresponding to a similar bureau in the Department of Agriculture.

The leaders in the Harvard Research work, Mr. A. W. Shaw, of Chicago, and Dean Edwin Gay, of Harvard, predicted, before any field work was undertaken, that the first fact to be brought to light by the investigation would be the incomparability of the data assembled, for the reasons that no accounting and statistical standards existed and that the personal equation played such an important part in retail management. The truth of this prediction was attested by the first summer's experience in 1911. As soon as it had been clearly shown that the initial step in research work of this character would be to standardize the original data, the plan for the organization of the Bureau was developed. This plan called for the preparation of a standard system of accounts and statistics, and for the introduction of this system among the retail shoe-dealers on a co-operative basis. The principle of this co-operative plan was that the dealer using the Harvard system was to submit all his figures, properly keyed, to the Bureau, and that the Bureau was to give in exchange such information as could be gained by the classification and study of the data furnished by the dealers.

Now that the Bureau has been established three years, it may be worth while to review its activity with respect to the following points: first, the co-operative plan employed by the Bureau; second, the system of accounts and statistics prepared by the Bureau; third, the results obtained in the form of standards and principles.

With regard to the organization of the research on the plan of co-operation with the retailer, the difficulties involved were to induce the retailer to adopt the prepared system of accounts and statistics; to induce him to apply the system intelligently and conscientiously; and to induce him to furnish the Bureau with the desired facts and figures.

Up to the present time six hundred shoe retailers have co-operated with the Bureau to the extent of furnishing specific figures from their

own business. Of these at least one hundred and fifty have introduced the Harvard system of accounts and are contributing information to the Bureau. From this it is evident that the Bureau has been successful in persuading dealers that it is worth while to co-operate on the general grounds of trade welfare or on the specific grounds of individual gain.

A significant question which may be asked with respect to these numbers is, "How far are they fairly representative of the different parts of the country where trade practices vary; of communities of different sizes; of large, medium, or small concerns; of specialty and general stores, etc.?" To this question the Bureau is addressing itself as rapidly as the work permits. Every section of the country is now represented to some extent and the larger cities are particularly well represented. As the work progresses, the Bureau, by extending its membership according to a definite plan, should be able to secure a sufficiently representative number of concerns in each class to make possible a study of data by classes in addition to such a study for the entire industry. Very much of the scientific value of the research will depend on how the second and third points referred to above are observed by the individual retailer after the co-operation of a sufficient number of representative dealers has been secured.

With regard to the larger dealer it appears that the chief problem is to prevail upon the management to submit the figures and facts. These business firms have evolved fairly efficient accounting systems of their own, from which they can draw in large part the figures desired by the Bureau without resorting to the introduction of the Bureau's system. The fact that these retailers are pretty well informed concerning their own business makes it difficult to convince many of them that co-operation will offer sufficient returns to warrant the outlay and inconvenience involved. On the other hand, experience shows that many proprietors of large businesses are inclined to co-operate on the general grounds that it is worth while for the trade.

In the case of the smaller retailer who is induced to co-operate, the great problem which the Bureau encounters is the fact that the information supplied by the dealer may be vitiated by the failure on his part to apply the accounting system efficiently, either because of a lack of intelligence or because of a lack of time. In order to avoid an error in the final results, great care must be taken to instruct these dealers sufficiently in the keeping of their accounts and to impress upon them the need of accuracy. The returns must then be checked for the purpose of detecting the more obvious discrepancies. The knowledge which the Bureau has

obtained from field agents and reliable retailers should serve as a satisfactory check on the reports of individual retailers.

The development by the Harvard Bureau of a distinct co-operative plan of organization for conducting business research should be recognized as a valuable contribution in itself. This plan, modified in particulars as a result of further experience, will doubtless serve as the basis for the inauguration of research activities by other institutions.

The accounting system provided by the Bureau has been prepared with a view (1) to making the figures obtained by the accounts as valuable as possible for the scientific purposes of the bureau, (2) to assuring an effective system for the purposes of the individual dealer, and (3) to making the system acceptable to the trade. Considering the diverse purposes to be served by the system, little adverse criticism can be brought against it. The writer has conferred with a number of successful retail shoe-dealers in Chicago, some of whom are contributing information to the Harvard Bureau, and they agree that the accounting system is well adapted to the needs of the trade. They suggest a few changes, but these are of minor importance. As was to be expected, many of these men were of the opinion that the system was too complicated for the small dealer to use intelligently. The problem in this regard has already been discussed.

From an accounting point of view, and for the scientific purposes of the Bureau of Research, the system of accounts is in every way satisfactory.

The published results achieved by the Bureau of Research during its first three years of activity, though very limited in extent, are such as to encourage those who understand the function of scientific research. The chief consideration to be borne in mind in discussing the value of the facts arrived at by the Bureau is that, in spite of all that may be said in criticism of these facts, they are, after all, the most scientific that have been offered in the field covered by the Bureau.

The table on p. 900 gives the essential facts established by the Bureau.

The most interesting column in this table is the one giving the percentage about which a concentration is sufficient to indicate a "realizable standard," for this indicates what the Bureau is doing in its endeavor to establish scientific standards. Constructive criticism of the results as set forth in the table may be offered to the effect that the "realizable standard" cannot be applied to a single enterprise, for the reason that the original data are obtained from too varied a range of business. To

be specific, the "realizable standard" of rent to net sales, which the Bureau places at 3 per cent, cannot apply alike to the Chicago State Street merchant and to a country or to a suburban dealer. The right line to follow in this regard is to classify dealers who have similar conditions to cope with and to operate under, and to establish standards for each class instead of for the whole group. As the Bureau extends its activities, such a classification of retailers can be made.

SUMMARY TABLE

(Figures in the body of the table are percentages of the total amount of net sales)

Item	Lowest Percentage	Highest Percentage	Percentage about Which Data Center (Not an Average)	Percentage about Which a Concentration Is Sufficient to Indicate a Realizable Standard
Gross profit, including discounts. . . .	20	42	{ Low grade 23-25 High grade 30-33
Total operating expense, not including freight and cartage and interest.
Buying expense.	18	35	{ Low grade 23 High grade 27	Low grade 20 High grade 25
Sales force.	0.8	1.8		1.0
Advertising.	5.0	10.3	8.0	7.0
Deliveries.	0.0	8.8	2.0	1.5
Rent.	0.0	1.4	0.6	0.4
Interest.	1.8	14.6	5.0	3.0
Stock-turns per year.	1.0	7.9	2.5	2.0
Annual sales of average sales-person.	1.0	3.6	1.8	2.5
	\$5,000	\$16,500	\$10,000

So far, the results obtained bear only on the distribution of expense and the rate of turn-over of stock in shoe retailing, but the Bureau is extending its research into the buying and selling phases as well.

The success which the Bureau has met with in its investigation of the merchandising of shoes has encouraged its directors to begin a similar investigation of the merchandising of groceries. This study has not progressed far enough as yet to warrant the issuance of a report.

Judged generally by the results accomplished directly through the assembling of business data, and indirectly by the new and favorable attitude of business men toward research which the Bureau has been instrumental in creating, the work of the Bureau must be looked upon with approval by all who are interested in making the production and distribution of goods the object of scientific analysis and study.

ARTHUR E. SWANSON

NORTHWESTERN UNIVERSITY